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260 FRANKLIN STREET  
BOSTON, MA 02110-3173

(617) 748-6800

FACSIMILE: (617) 439-0341

E-MAIL ADDRESS: MEABH.PURCELL@LLGM.COM

WRITER'S DIRECT DIAL: (617) 748-6847

WRITER'S DIRECT FACSIMILE: (617) 897-9047

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December 16, 2003

**BY HAND**

Mary L. Cottrell, Secretary  
Massachusetts Department of Telecommunications  
and Energy  
One South Station, 2nd Floor  
Boston, MA 02110

Re: Request, Pursuant to G.L. c. 164, § 94 and 220 C.M.R. §§ 5.02(2) and  
5.03(3), for Approval of a Special Contract for Electric Delivery Service  
between Fitchburg Gas and Electric Light Company and PGM Plastics,  
Inc. D.T.E. EC-03-3

Dear Ms. Cottrell:

On December 5, 2003, the Massachusetts Office of the Attorney General ("Attorney General") filed comments in this docket recommending that the Department of Telecommunications and Energy ("Department") reject the request of Fitchburg Gas and Electric Light Company ("FG&E" or "Company") for approval of a special contract for electric delivery service ("Request") with PGM Plastics, Inc. ("PGM").

The Company disagrees with the Attorney General's comments and recommendations and believes that those recommendations would, if implemented by the Department, be contrary to the interests of an important local manufacturing business, the interests of the Company's other customers and the Fitchburg economy. Accordingly, FG&E respectfully requests permission to file the following response and asks that its response be considered by the Department in its deliberations.

1. **There is no Department requirement that an economic development rate ("EDR") be filed as a tariff.** The Attorney General, in the Introduction to his comments, notes that the Company has failed to file an EDR tariff or proposed that the discount be available to customers other than PGM. There is no requirement in Massachusetts, however, that EDRs be available only through tariff offerings. In D.P.U. 93-41, the Department recognized that "there may be some instances in which an individual EDR contract is desirable," and found "no basis in the instant proceeding to prohibit the offering of EDRs through contract." (D.P.U. 93-41, *Slip Op.* at 26.) The Department stated that it would not preclude companies from proposing specific EDR contracts to customer who could provide significant benefits consistent with the goals of EDRs as long as such contracts are consistent with the requirements of G.L. c. 164 §94 and 220 C.M.R. §§ 5.00 et seq. *Id.*

Subsequently, in D.P.U./D.T.E. 96-39-A, the Department determined that the Restructuring Act and Department regulations do not preclude discounted electricity contracts between distribution companies and their customers, as long as the transition charge is not bypassed or discounted, and the distribution company demonstrates that: 1) the discounted rate exceeds the company's marginal costs of distribution; 2) the discount is not recoverable from remaining customers; and 3) the contract is consistent with law and the Department's policies and precedent. As discussed in the Company's filing, in its response to data requests provided to the Department, and as further discussed below, FG&E submits that these criteria have been met, and therefore approval of this EDR contract should be granted.

2. **The proposed distribution charges are above FG&E's marginal costs of distribution.** The Attorney General claims that the Department should reject the proposed special contract because the Company has not shown that the proposed distribution charges are above its long run marginal costs, as various fixed costs were removed from its calculation. As discussed in detail in FG&E's response to data request DTE 1-1 (attached as Exhibit 1), the Company submits that the calculation of marginal costs in this instance is appropriate and consistent with D.P.U./D.T.E. 96-39-A as it properly reflects the marginal distribution costs to serve this customer.
3. **FG&E agrees that it will not seek recovery of the discounted revenues from its remaining ratepayers.** The Attorney General states that the Company has failed to show or even promise that it will not recover the special contract discounted revenues from other customers. To the extent that the Company's position on this point as discussed in its October 31, 2003 letter to Secretary Cottrell was not clear, FG&E clarifies that it will not, at any time, seek recovery of the discounted revenues from its remaining ratepayers.

4. **The proposed Special Contract is beneficial to FG&E's other customers.** The Attorney General claims that the proposed contract is discriminatory as it will not be available to other customers. FG&E submits that any distinction in rates between customers or classes of customers may be tagged as discriminatory, and therefore a public interest inquiry must look beyond such a superficial analysis. The Department and the Massachusetts Supreme Judicial Court have recognized that the benefits of a proposed rate and the advancement of public policy are legitimate considerations in approving the design of rates, and that the Department has the authority to approve such different rates as long as they are not *unduly* or *irrationally* discriminatory. D.P.U. 93-41, *Slip Op.* at 10. As the Department stated, "our primary goal in approving any EDR is to increase the overall contribution to a utility's fixed costs, which may in turn serve to delay the need for a base rate increase, and thereby benefit all ratepayers." *Id.* at 12. In this instance, the proposed rates are sufficient to cover marginal costs, plus make a contribution to fixed costs. Additionally, a local business remains *and expands its operations* in the community. As a result, the system as a whole and the remaining customers benefit.
5. **A reduction in the Seabrook Amortization Surcharge ("SAS") or the Transition Surcharge would not be in the public interest.** The Attorney General suggests that a reduction in the SAS or transition charge, or a combination of both, could achieve the same level of savings for PGM and while benefiting its other customers. FG&E submits that a reduction in either of these charges would not achieve any savings, as it would result only in the postponement of collection of these charges. The charges would also continue to earn carrying charges. The Company's transition charge is projected to have a deferred balance of \$16.4 million at the end of this year, and has a carrying charge of 9.05 percent. See FG&E's Annual Transition Charge Reconciliation Filing in D.T.E. 03-115. The SAS amortization, however, is close to complete, with final recovery expected in 2005. FG&E's transition charge is currently set at the maximum amount allowed in order to meet the rate cap established by the Electric Restructuring Act. FG&E submits that any reduction below that amount or a reduction to the SAS are not in the best interest of ratepayers as they are artificial rate reductions that customers pay for in the long run.

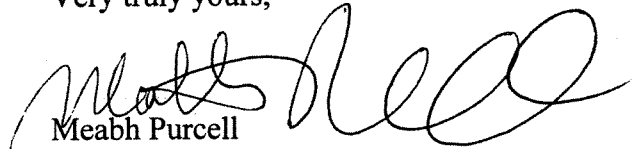
The Attorney General suggests that reducing rates for all customers as above would also serve to grant the relief requested in his Motion for an Investigation and Public Hearing into Temporary Rates, filed on April 30, 2003. The Company will not restate here its response, filed on May 30, 2003, to the Attorney General's Motion. In any event, that Motion concerned FG&E's gas rates, not electric distribution rates. The Company does not believe it to be in the public interest to try to affect the price of one utility service through the manipulation of the price of another unrelated service. Moreover, the Motion was initiated in large measure due to increases in the commodity costs for natural gas, which were experienced

Mary L. Cottrell, Secretary  
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throughout the Northeast last winter due to the long stretch of cold weather and the accompanying increased demand. Commodity prices have since moderated, and FG&E passed these lower costs directly to its customers through its Cost of Gas Adjustment, approved by the Department effective November 1, 2003, resulting in a 13.5 percent *decrease* from last winter's rates of March 2003 for a typical heating customer using 150 therms a month. Thus, FG&E believes that the Attorney General's Motion is now moot.

Finally, FG&E submits that its current rates have been found by the Department to be reasonable. Under such circumstances, a single customer EDR contract, when calculated and applied in accord with Department requirements, is a reasonable response, and, therefore, the Company's request in this docket should be approved.

Very truly yours,

  
Meabh Purcell

MP:rtm

Cc Caroline M. Bulger, Hearing Officer  
Kevin Brannelly, Director, Rates and Revenue Requirements  
Miguel Maravi, Analyst, Rates and Revenue Requirements Division (4 copies)  
Joseph Rogers, Assistant Attorney General  
Wilner Borgella, Jr., Assistant Attorney General  
Robert Sydney, General Counsel, Division of Energy Resources  
David McKeehan, President, North Central Chamber of Commerce  
Robert A. Antonioni, Senator  
Emile Goguen, State Representative  
Brian Knuuttila, State Representative  
Robert Hargraves, State Representative  
James Eldridge, State Representative  
Paul Muzyka, PGM Plastics, Inc.  
Michael A. Lanava, Fitchburg Economic Development Office

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Commonwealth of Massachusetts  
Department of Telecommunications and Energy  
Fitchburg Gas and Electric Light Company  
Docket No: EC 03-3  
Department's First Set of Data Requests

Request No.: DTE-1-1

Please refer to the Letter at 4 and Letter at Att. 3. Explain how the proposed exclusion of the fixed cost from the marginal costs as filed in D.T.E. 02-24/25 and the calculation of a marginal variable cost comply strictly with D.P.U. 96 39-A at 2 (October 27, 1998), which states that a distribution company must demonstrate that "the discounted rate exceeds the Company's marginal cost of distribution" before the Department will approve an electricity contract, especially in light of the fact that this finding does not limit marginal costs to a company's marginal variable cost.

**Response:**

FG&E submits that its methodology for calculating marginal costs is appropriate and generally consistent with D.P.U. 96-36-A, because it reflects the marginal cost of distribution for this customer. The marginal costs as filed in D.T.E. 02-24/25, without adjustment, do not give a proper representation of the marginal costs to serve PGM. The filed marginal costs reflect a system wide average, and though it provides an appropriate computation in many cases, in certain instances and locations the average costs may not be representative. As discussed in the cover letter to FG&E's special contract filing, PGM has an existing facility currently operating, and is expanding operations into an adjacent, previously vacant facility. The distribution system in place does not need to be expanded to meet the customer's needs. The only work required to serve the expansion load was an upgrade in the service to the facility, which was reflected in FG&E's marginal cost computation.

Additionally, FG&E reviewed its capacity situation with respect to this load, and does not anticipate any upgrades within a reasonable time horizon as a result of this load expansion. The PGM load represents approximately 20 percent of the capacity of the distribution circuit they are on. Even after the expansion of this load and a 5 year growth projection were applied, the circuit remains at less than 70 percent of capacity. FG&E estimates that there is more than adequate capacity on this distribution circuit and that there will be no need for an upgrade within the next 5 to 8 years.

Taking this into consideration, FG&E determined that the fixed marginal costs to serve PGM are \$0, and has, therefore, adjusted its marginal costs as filed in D.T.E. 02-24/25 accordingly.<sup>1</sup> By excluding these fixed costs, the resulting marginal cost computation acknowledges the current and projected capacity of the specific distribution circuit. The only costs that will be incurred to serve PGM are variable expenses, and these will be more than fully recovered in the proposed rate.

Person Responsible: Karen M. Asbury

<sup>1</sup> In D.P.U. 93-41, the Department recognized the effect of excess capacity on marginal costs. In considering Boston Edison Company's recommendation to allow the use of short-run marginal costs as the lower bound, the Department noted that in extended periods of excess capacity, any capacity costs included in a long-run marginal cost study will be significantly discounted. *Id.* at 35.